

Analysis of Financial Statements

The Department received, for the eighth consecutive year, an unqualified audit opinion on its financial statements. These financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of KPMG LLP. It is the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

Figure 1-26 illustrates a condensed version of the Department's Consolidated Balance Sheet and Statement of Net Cost.

Overview of Financial Position

Assets

In FY 2004, the Department's assets totaled \$56,946 million. This is an increase of \$2,980 million over the prior year's assets totaling \$53,966 million. Intragovernmental Assets are primarily the Fund Balance with Treasury and Investments in U.S. Treasury Securities. Intragovernmental Assets and General Property, Plant, and Equipment comprise 96% of total assets. The largest increase to assets relates to increased oil prices and sales volume for royalty revenue that relates to accounts receivable with the public. *Figure 1-27* summarizes the Department's assets as of September 30, 2004.

The increase in Intragovernmental Assets is primarily due to an increase in the Fund Balance with Treasury from advances with Federal agencies for the Interior Franchise Fund (IFF) and the Working Capital Fund (WCF) and because revenues exceeded transfers out and expenses for the Conservation Funds. A portion of the Fund Balance with Treasury includes Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund) reported as "restricted" since these conservation funds are not presently available to Interior.

Investments are largely composed of U.S. Treasury Securities invested on behalf of the various Interior programs such as the Environmental Improvement and Restoration Fund, the Abandoned Mine Land Fund, and the Aquatic Resources Trust Fund and other funds.

FIGURE 1-26

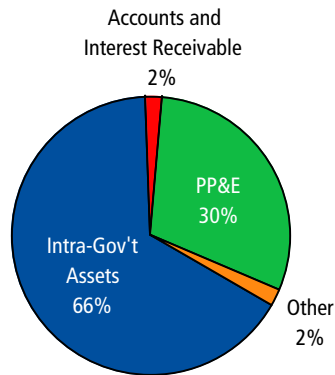
Condensed Balance Sheet
For the Fiscal Years Ended September 30, 2004 and 2003
(dollars in thousands)

	2004	2003	% Change
Assets			
Intragovernmental Assets	\$ 37,402,718	\$ 34,698,993	8%
General Property, Plant, and Equipment, Net	17,154,211	16,955,915	1%
Accounts and Interest Receivable, Net	1,347,641	1,226,984	10%
Other	1,041,708	1,084,511	-4%
Total Assets	<u>\$ 56,946,278</u>	<u>\$ 53,966,403</u>	<u>6%</u>
Liabilities			
Intragovernmental Liabilities	\$ 4,738,939	\$ 4,350,627	9%
Accounts Payable	1,024,845	965,509	6%
FECA	664,855	712,250	-7%
Contingent Liabilities	781,453	776,546	1%
Other	2,761,629	1,648,606	68%
Total Liabilities	<u>9,971,721</u>	<u>8,453,538</u>	<u>18%</u>
Net Position			
Unexpended Appropriations	4,080,359	3,929,302	4%
Cumulative Results of Operations	42,894,198	41,583,563	3%
Total Net Position	<u>46,974,557</u>	<u>45,512,865</u>	<u>3%</u>
Total Liabilities and Net Position	<u>\$ 56,946,278</u>	<u>\$ 53,966,403</u>	<u>6%</u>

Condensed Statement of Net Cost
For the Fiscal Years Ended September 30, 2004 and 2003
(dollars in thousands)

	2004		2003
Mission		Mission	
Resource Protection	\$ 2,435,401	Protect and Preserve the Environment	\$ 3,848,345
Resource Use	2,447,656	Provide Recreation	1,943,686
Recreation	1,901,519	Manage Natural Resources	2,773,058
Serving Communities	6,008,038	Provide Science	1,108,064
Non-Mission		Meet Our Trust Responsibilities	2,304,961
Reimbursable Activity and Other Costs	266,435	Non-Mission	
Net Cost of Operations	<u>\$ 13,059,049</u>	Reimbursable Activity and Other Costs	261,280
		Net Cost of Operations	<u>\$ 12,239,394</u>
Total Cost	\$ 17,793,034	Total Cost	\$ 16,101,375
Total Revenue	4,733,985	Total Revenue	3,861,981
Net Cost of Operations	<u>\$ 13,059,049</u>	Net Cost of Operations	<u>\$ 12,239,394</u>

FIGURE 1-27
FY 2004 Asset Categories



General Property, Plant, and Equipment are primarily composed of land, structures, and facilities that are used for general operations, power, wildlife enhancement, and recreation. Most of the Department's structures and facilities are composed of dams, power, and irrigation facilities managed by the Bureau of Reclamation. The remainder consists of buildings and facilities used in the Department's operations (e.g., visitor centers, fish hatcheries, and Bureau of Indian Affairs schools).

Stewardship Assets and Investments

Interior is the Federal government's largest land-managing agency, administering over 500 million acres of America's land mass and serving as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres managed by Interior are considered stewardship land (*Table 1-24*). The non-stewardship land managed by Interior consists primarily of Tribally and individually owned land held in trust status and non-federal land (i.e., private, state, or local) that are within the administrative boundaries of the National Park System and the National Wildlife Refuges.

Interior-administered stewardship lands encompass a wide range of activities including recreation, conservation, and functions vital to the health of the economy and to the American people. The stewardship assets managed by the Department remained constant with a slight net decrease due to a BOR land reconciliation effort.

Stewardship investments represent expenses charged to current operations that are expected to benefit the

TABLE 1-24

Stewardship Land (Federal Acres)				
	Beginning Acres	Additions	Withdrawals	Ending Acres
BLM	261,950,378	42,563	(144,821)	261,848,120
NPS	78,842,824	241,819	(61,970)	79,022,673
FWS	90,264,000	42,600	-	90,306,600
BOR	5,861,154	-	(136,156)	5,724,998
BIA *	205,205	465	(149)	205,521
Other	12,380	671	(320)	12,731
Total	437,135,941	328,118	(343,416)	437,120,643

* The BIA also administers approximately 56 million acres of Tribally and individually owned land held in trust status.

TABLE 1-25

Stewardship Investments (in millions)				
	FY 2004	FY 2003	Change	% Change
Non-Federal Physical Property	\$644	\$641	\$3	1.0%
Research and Development	981	952	29	3.0%
Human Capital	639	631	8	1.3%
Totals	\$2,264	\$2,224	\$40	2.0%

Nation over time. The Department's Stewardship Investments include research and development programs, investment in education, and the purchase or construction of assets for which State, local or tribal governments and insular areas retain title. Stewardship investments are summarized in *Table 1-25*. The decrease in the investments from FY 2003 to FY 2004 is due primarily to reduced available funding for stewardship investments.

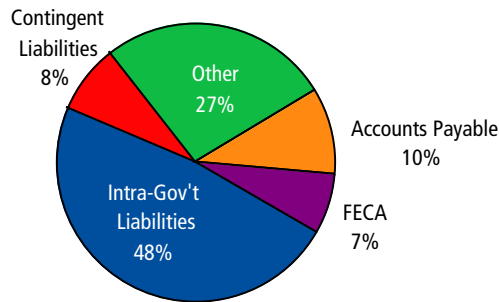
The Department's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Required Supplementary Stewardship Information section of the report.

Liabilities

In FY 2004, the Department's liabilities totaled \$9,972 million. This is an increase of \$1,518 million over the prior year's liabilities, which totaled \$8,454 million. Intragovernmental Liabilities is primarily debt to the U.S. Treasury and advances and deferred revenue.

FIGURE 1-28

FY 2004 Liability Categories



Intragovernmental Liabilities and accounts payable with the Public comprise 58% of the Department's total liabilities. The largest increase to liabilities relates to a change in accounting principle for the USPP Pension Plan. *Figure 1-28* summarizes the Department's liabilities as of September 30, 2004.

In FY 2004, the Interior was directed by the OMB to account for the liability of the USPP Pension Plan. This resulted in a change of accounting principle and the recognition of the USPP Pension Plan liability for future benefits. A liability was not previously recognized because the Department does not administer the pension plan. As a result of the change in accounting principle, the Department recorded an adjustment of \$649 million to establish the liability. This decreased Net Position by the same amount.

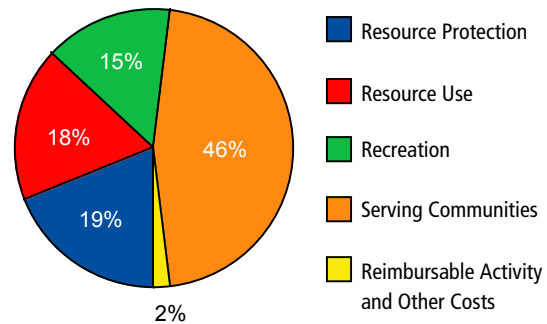
Federal agencies by law cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. The Department's unfunded liabilities consist primarily of environmental and legal contingent liabilities and unfunded employee compensation costs including FECA and annual leave. These liabilities will be paid from funds made available to the Department in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

Ending Net Position

The Department's Net Position at the end of FY 2004, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$46,974 million, an increase of about \$1,461 million or 3% from the previous year.

FIGURE 1-29

FY 2004 Net Cost of Operations



The Net Position of the Department consists of two components (1) Unexpended Appropriations of \$4,080 million and (2) Cumulative Results of Operations of \$42,894 million. The growth in Unexpended Appropriations is primarily due to the continued increase in budget authority received to achieve the mission goals of the Department.

Results of Operations

The Department's net cost of operations for FY 2004 was \$13,059 million. This is an increase of \$820 million from the previous year's net cost of \$12,239 million. Most costs incurred by the Department are directly related to providing services to the public. Costs associated with earning revenue from Federal agencies are approximately 14% of total expenses.

Interior updated its Strategic Plan in FY 2004 and replaced its previous five mission goals with the following four mission goals: Resource Protection, Resource Use, Recreation, and Serving Communities. Serving Communities represents 46% of the Department's net cost of operations (*Figure 1-29*).

Revenues

During FY 2004, Interior earned approximately \$2,208 million in revenues from the public and approximately \$2,526 million in revenue from other

Federal entities for a total of \$4,734 million. This is an increase of about \$872 million from September 30, 2003. The increase in revenue is due to an increase in intragovernmental revenue from the Interior Franchise Fund and the Working Capital Fund, as well as an increase in land sales. In FY 2003, approximately \$1,819 million was earned in revenues from the

public and approximately \$2,043 million was earned in revenue from other Federal entities for a total of \$3,862 million.

Interior classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park and wildlife refuge entrance fees, map sales, and other products and services that are directly related to Departmental operations. Revenues collected from other Federal agencies consist of reimbursable activities such as construction, engineering, and other technical services. A majority of the revenue received from Federal agencies is due to the IFF and the National Business Center providing shared administrative services and commonly required products to Federal agencies. The Department also collects mineral lease revenues on behalf of the Federal government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

The Department collects various non-exchange revenues. Examples of non-exchange revenues are taxes, fines and penalties which the Federal Government collects as a result of its sovereign powers rather than as a result of providing goods or service for a fee. Donations to the Department are also reported as non-exchange revenues. Non-exchange revenue increased from \$1,159 million in FY 2003 to \$1,202 million for FY 2004.

Revenues earned are either retained by the Department to further Interior's mission or returned to the General Fund of the Treasury. In either case, these revenues offset the taxpayer's investment in the Department. During FY 2004 and FY 2003, the Department returned to the General Fund of the Treasury, \$30 million and \$42 million, respectively.

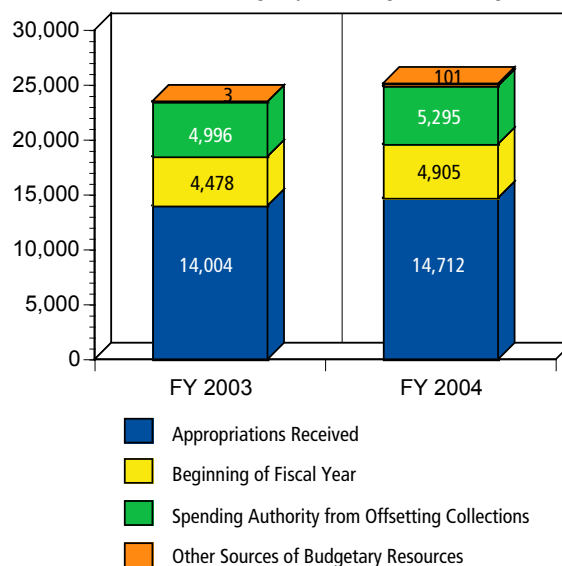
Custodial Activity

In accordance with federal accounting standards, receipts from mineral leasing revenues are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal Government as a whole rather than the Department. Mineral leasing revenues were \$9,250 and \$8,247 million as of September 30, 2004 and 2003, respectively, and include Outer Continental Shelf and onshore oil, gas, and mineral sales and roy-

FIGURE 1-30

Budgetary Resources * (in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts



alties. The large increase is due to large sales occurring near the end of FY 2004.

The Department collects a portion of revenue as royalties-in-kind for transfer to the Strategic Petroleum Reserve. Interior received approximately 38.4 and 38.2 million barrels of petroleum as in-kind mineral lease revenues for the periods ended September 30, 2004 and 2003.

Budgetary Resources

The Department receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (*Figure 1-30*). Other sources include special and trust funds such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Combined Statement of Budgetary Resources provides information on the budgetary resources that

were made available to the Department for the year and the status of those resources at the end of the fiscal year. Obligations of \$19,803 and \$18,570 million were incurred as of September 30, 2004 and 2003 on total budgetary resources of \$25,013 and \$23,475 million, respectively (*Figure 1-31*). The Combined Statement of Budgetary Resources is presented on a combined basis rather than a consolidated basis for consistency with budget execution information and to properly report obligations incurred by the entire Department.

Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of the Interior pursuant to the requirements of Chapter 31 of the U.S.C. section 3515(b).

While these statements have been prepared from the records of the Department in accordance with the formats prescribed in OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

FIGURE 1-31
Status of Budgetary Resources *
(in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts

